

Decision 06-02-034 February 16, 2006

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of SOUTHERN CALIFORNIA GAS COMPANY for Authority to Transfer Cushion Gas in its Aliso Canyon And La Goleta Storage Fields to Alleviate the Impact of High Gas Prices on CARE Customers. (U 904 G).

Application 05-10-012
(Filed October 11, 2005)

OPINION REGARDING THE PETITION OF SOUTHERN CALIFORNIA GAS COMPANY TO MODIFY DECISION 05-11-027

Summary

On January 12, 2006, Southern California Gas Company (SoCalGas) filed a petition to modify Decision (D.) 05-11-027, and a motion to shorten the time to respond to the petition. The petition seeks to modify Ordering Paragraph 4 of D.05-11-027 to allow SoCalGas to defer to future winter months, but no later than March 31, 2008, the remaining benefits of the cushion gas project to the extent the benefits are needed to keep CARE¹ commodity rates below 80 cents per therm.

In D.05-11-027, we authorized SoCalGas to rework the wells in two of its gas storage fields so that 4 billion cubic feet (Bcf) of cushion gas could be freed up, and reclassified as working gas and transferred in kind to SoCalGas' CARE customers at book value. Ordering Paragraph 4 of D.05-11-027 directed that the

¹ CARE refers to the California Alternate Rates for Energy program, which provides qualifying customers with a 20% discount off of their energy bill.

benefits of the cushion gas project be flowed into CARE rates over the four month period of December 2005 through March 2006.

Due to the mild weather this winter, natural gas prices have not risen to the high levels that were first anticipated when SoCalGas filed its application in October 2005. The drop in natural gas prices this winter raises the issue of whether the remaining benefits from the cushion gas project should be deferred to benefit CARE customers from high winter gas prices in the future.

Today's decision grants SoCalGas' unopposed petition to modify D.05-11-027. Ordering Paragraph 4 of D.05-11-027 is modified as requested, which allows SoCalGas to flow through to CARE customers the remaining benefits of the cushion gas project over the next two winter periods to keep the monthly winter CARE commodity rates from exceeding 80 cents per therm.

Background

The petition and the motion to shorten time to respond to the petition urged that the Commission act on the petition at the January 26, 2006 meeting, or no later than the February 16, 2006 meeting. Urgent action is requested because of the timing of the pass through of the benefits from the cushion gas project. Due to the need to respond in a timely manner to the petition, in a January 17, 2006 electronic message to the service list, the assigned Administrative Law Judge (ALJ) granted the motion to shorten the time for parties to file a response to the petition. The electronic message established January 24, 2006, as the filing date for parties to file a response, and January 31, 2006, as the filing date for replies.

No responses to the petition were filed.

Discussion

When D.05-11-027 was issued, it was anticipated that natural gas prices for the winter of 2005-2006 would be high due to the damage caused by Hurricane Katrina and rising natural gas prices. The cushion gas project that was authorized in D.05-11-027 was undertaken to help reduce the impact of expected high winter 2005-2006 gas bills on CARE customers. By spreading the anticipated project benefits over December 2005 to March 2006 to CARE customers, together with the gas hedging authorized in D.05-10-043, SoCalGas anticipated that the CARE commodity rates would not exceed 80 cents per therm this winter.

Due to the mild temperatures this winter, natural gas prices have been lower than anticipated when SoCalGas' application was first filed. As a result, the cost of gas has moderated, which has implications for how to best apply the remaining benefits from the cushion gas project to CARE rates. Unless Ordering Paragraph 4 of D.05-11-027 is changed, all of the benefits of the cushion gas project will be passed into CARE rates by the end of March 2006.

According to the petition, and the declaration attached in support of the petition, SoCalGas has already passed through to CARE customers the benefits from 1.25 Bcf of the 4 Bcf of gas. For the December 2005 commodity rate for CARE customers, 0.25 Bcf of reclassified gas was used to reduce the CARE rate by 3.8 cents per therm, which resulted in a net CARE commodity rate of 65 cents per therm. The January 2006 core commodity rate was 93.3 cents per therm. Applying the 20% CARE discount, the CARE commodity rate would have been 74.6 cents per therm. For January 2006, the benefit associated with 1 Bcf of reclassified gas was used to reduce the CARE rate by an additional 16.1 cents per therm, which resulted in a net CARE commodity rate of 58.5 cents per therm.

The total rate reduction for these two months that is attributable to the benefits of the cushion gas project amount to approximately \$11 million.

If gas prices remain moderate, SoCalGas estimates that the core monthly price in February 2006 will be approximately 82.6 cents per therm, and in March 2006 will be approximately 83.2 cents per therm. After the CARE discount of 20 percent is applied, SoCalGas estimates that the CARE rate will be approximately 66.1 cents per therm in February 2006, and 66.5 cents per therm in March 2006. If the benefits from the remaining 2.75 Bcf of the reclassified gas are flowed through, SoCalGas estimates that the CARE commodity rate will be approximately 43.5 cents per therm in February and 42.7 cents per therm in March 2006.

Instead of reducing the CARE commodity rate to 43.5 cents and 42.7 cents in February and March 2006, SoCalGas is of the opinion that the remaining benefit from the reclassified gas should be held in reserve for CARE customers in case natural gas prices rise again during upcoming winter months. Since the goal of the cushion gas project was to mitigate the impact of very high natural gas prices on CARE customers, and CARE commodity rates have been below 80 cents per therm so far, SoCalGas requests that the remaining benefit be deferred until a winter month or months² in which the CARE commodity rate would otherwise exceed the 80 cents per therm. SoCalGas further proposes that the deferral of the remaining benefit end by March 31, 2008 if the gas price trigger is not reached over the next two winter periods.

² SoCalGas' reference to "winter" means November through March.

SoCalGas points out that if the remaining reclassified gas is not transferred in kind to CARE customers by the end of March 2006, core storage will need to accommodate this remaining gas in its storage inventory. Pending a decision in Phase 2 of this proceeding, SoCalGas recommends that as of April 1, 2006, the 2.75 Bcf, or portion thereof, of the reclassified gas be held in storage inventory, and that the Commission temporarily increase the core storage allocation to 70 Bcf plus the amount of the unused reclassified cushion gas as of April 1, 2006.

SoCalGas proposes that Ordering Paragraph 4 of D.05-11-027 be replaced by the paragraph in its petition, which is quoted below.

Due to the unexpected mild weather and moderate gas prices this winter, the commodity rate for winter gas has been lower than anticipated. This has benefited consumers in that natural gas prices have not been as high as they were expected to be. Consequently, the relief offered by the cushion gas project that was authorized in D.05-11-027, has not been as urgent as first envisioned.

In order to better match the benefits of the cushion gas project to high winter gas costs, SoCalGas should be given the flexibility to allocate the remaining benefits of the project over the next two winters, or in March 2006 if needed, instead of requiring SoCalGas to pass through all the benefits by the end of March 2006. This flexibility will allow SoCalGas to better match the benefits to future winter months when winter gas prices might be higher than they currently are. This flexibility will better benefit CARE customers by reducing their winter gas bills when a rate reduction is needed the most.

If the benefits from the remaining reclassified gas are not passed through by March 31, 2006 to CARE customers, SoCalGas should be allowed to increase core storage by the amount of the remaining reclassified gas pending a decision on this issue in Phase 2 of this proceeding.

Accordingly, SoCalGas' petition to modify D.05-11-027 should be granted, and Ordering Paragraph 4 of the decision should be deleted and replaced with the following:

4. SoCalGas is authorized to flow through into CARE rates the estimated cushion gas benefit that will result from the rework, reclassification, and transfer at book value to CARE customers starting in December 2005. SoCalGas is authorized to flow the benefit through to CARE customers to the extent needed to keep the CARE commodity rate in any winter month from exceeding 80 cents per therm, provided that SoCalGas shall flow through all the benefit to CARE customers no later than March 31, 2008 even if CARE commodity rates would not otherwise exceed 80 cents per term in any month before then. Pending a decision in Phase 2 of this application, SoCalGas' core shall be allowed to hold reclassified cushion gas not used by March 31, 2006 in storage inventory, in addition to the core's ability to use 70 Bcf of storage inventory capacity already allocated to it.

Assignment of Proceeding

Michael R. Peevey is the Assigned Commissioner, and John S. Wong is the assigned ALJ for this proceeding.

Waiver of Comments on Draft Decision

Since no one filed a response to SoCalGas' petition to modify D.05-11-027, the relief sought by SoCalGas is uncontested. When the matter is uncontested, and the decision grants the relief requested, Rule 77.7(f)(2) of the Commission's Rules of Practice and Procedure provides that the Commission may reduce or waive the period for public review and comment. Therefore, pursuant to Public Utilities Code § 311(g)(3) and Rule 77.7(f)(2), the comment period for public review and comment of this decision is waived.

Findings of Fact

1. Ordering Paragraph 4 of D.05-11-027 directed that the benefits of the cushion gas project be flowed through into CARE rates over the four-month period of December 2005 through March 2006.
2. The motion to shorten the time for parties to respond to the petition was granted in the ALJ's January 17, 2006 electronic message.
3. No responses to the petition were filed.
4. When D.05-11-027 was issued, it was anticipated that natural gas prices for the winter of 2005-2006 would be high due to the damage caused by Hurricane Katrina and rising natural gas prices.
5. The cushion gas project authorized in D.05-11-027 was undertaken to help reduce the impact of expected high winter 2005-2006 gas bills on CARE customers.
6. By spreading the anticipated cushion gas project benefits over December 2005 to March 2006 to CARE customers, together with the gas hedging authorized in D.05-10-043, SoCalGas anticipated that CARE commodity rates would not exceed 80 cents per therm this winter.
7. Due to the mild temperatures this winter, natural gas prices have been lower than anticipated.
8. The lower winter natural gas prices have implications for how to best apply the remaining benefits from the cushion gas project to CARE rates.
9. SoCalGas has already passed through to CARE customers the benefits from 1.25 Bcf of the 4 Bcf of reclassified gas.
10. If gas prices remain moderate, and the benefits from the remaining 2.75 Bcf of reclassified gas are applied to CARE rates in February and March

2006, the CARE commodity rates will be approximately 43.5 cents per therm in February and 42.7 cents per therm in March 2006.

Conclusions of Law

1. To better match the benefits of the cushion gas project to high winter gas costs, SoCalGas should be given the flexibility to allocate the remaining benefits of the project over the next two winters, or in March 2006 if needed, instead of requiring SoCalGas to pass through all the benefits by the end of March 2006.

2. If the benefits from the remaining reclassified gas are not passed through by March 31, 2006 to CARE customers, SoCalGas should be allowed to increase core storage by the amount of the remaining reclassified gas pending a decision on this issue in Phase 2 of this proceeding.

3. SoCalGas' petition to modify D.05-11-027 should be granted as requested.

4. Since this is an uncontested matter and the decision grants the relief that is being requested, the comment period for public review and comment on the decision is waived.

O R D E R

IT IS ORDERED that:

1. The January 12, 2006 petition to modify Decision (D.) 05-11-027 that was filed by Southern California Gas Company (SoCalGas) is granted, and D.05-11-027 shall be modified as follows:

a. Ordering Paragraph 4 of D.05-11-027 shall be deleted and replaced with the following Ordering Paragraph 4:

4. SoCalGas is authorized to flow through into CARE rates the estimated cushion gas benefit that will result from the rework, reclassification, and transfer at book value to CARE

customers starting in December 2005. SoCalGas is authorized to flow the benefit through to CARE customers to the extent needed to keep the CARE commodity rate in any winter month from exceeding 80 cents per therm, provided that SoCalGas shall flow through all the benefit to CARE customers no later than March 31, 2008 even if CARE commodity rates would not otherwise exceed 80 cents per therm in any month before then. Pending a decision in Phase 2 of this application, SoCalGas' core shall be allowed to hold reclassified cushion gas not used by March 31, 2006 in storage inventory, in addition to the core's ability to use 70 Bcf of storage inventory capacity already allocated to it.

2. This proceeding shall remain open to address the Phase 2 issues, and to consider whether the core storage inventory should be increased temporarily to accommodate any of the remaining reclassified cushion gas.

This order is effective today.

Dated February 16, 2006, at San Francisco, California.

MICHAEL R. PEEVEY
President
GEOFFREY F. BROWN
DIAN M. GRUENEICH
JOHN A. BOHN
RACHELLE B. CHONG
Commissioners